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Harel Insurance Company Ltd.

Follow up I February 2025

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Harel Insurance Company Ltd.

Insurer Financial Strength Rating (IFS)	Aa1.il	Rating outlook: Stable
Hybrid Tier-2 capital and Tier-2 capital instrument	Aa3.il(hyb)	Rating outlook: Stable

Midroog leaves unchanged the Aa1.il Insurer Financial Strength (IFS) rating of Harel Insurance Company Ltd ("Harel Insurance" and/or "the Company") and leaves unchanged the Aa3.il (hyb) rating for the subordinated liability notes (hybrid Tier-2 capital and Tier-2 capital instruments), that were raised through the subsidiary Harel Finance and Issues Ltd. The rating outlook is stable.

The subordinated debt ratings factor in the legal-contractual subordination of these debts with respect to the IFS rating, the ranking of seniority among the actual subordinated debts and the effect of the loss-absorption mechanisms inherent in them. Taking into account the Company's IFS level, the present and anticipated economic solvency level, while at the same time maintaining an adequate margin from the effective regulatory economic solvency requirement for the instrument, we estimate that the uncertainty regarding the probability of reaching the "delaying circumstances[1]" is low and is therefore not factored into the lowering of an additional notch for Tier-2 capital instruments.

Bonds in circulation rated by Midroog:

Bond series	Security number	Rating	Rating outlook	Category of eligible equity	Final maturity date
Harel F&I 9	1134030	Aa3.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2028
Harel F&I 10	1134048	Aa3.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2029
Harel F&I 11	1136316	Aa3.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2030
Harel F&I 12	1138163	Aa3.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2031
Harel F&I 13	1138171	Aa3.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2032
Harel F&I 14	1143122	Aa3.il(hyb)	Stable	Tier-2 capital	December 31, 2033
Harel F&I 15	1143130	Aa3.il(hyb)	Stable	Tier-2 capital	December 31, 2034
Harel F&I 16	1157601	Aa3.il(hyb)	Stable	Tier-2 capital	June 30, 2029
Harel F&I 17	1161454	Aa3.il(hyb)	Stable	Tier-2 capital	December 31, 2030
Harel F&I 18	1182666	Aa3.il(hyb)	Stable	Tier-2 capital	December 31, 2035

[1] Hybrid Tier-2

[1] Equity required for "delaying circumstances" is defined as 80% of the solvency ratio required in the transitional period, after adjustment for equity risk according to the Solvency Circular (above and below: "Required Solvency Ratio").

Rationale

The Company's rating reflects a strong business profile which is supported by the fact that the Company is Israel's largest insurer and has held a dominant position over time, as reflected in a 21% overall market segment in terms of gross premiums, with AUM of NIS 127 billion, as at September 30, 2024. The business profile is supported by relatively good diversification of lines of business, adequate control of the distribution network and a broad, diverse customer base, all of which support revenue generating potential. The risk profile is commensurate with the rating and is supported by relatively low product risk and by a risk management policy and control levels that are adequate for the rating and supported by regulatory requirements. The Company's exposure to large groups and policyholders accounted for 27% of total gross earned premiums in 2023, although this is expected to moderate in view of the revised outline for the agreement between the Company and Clalit Health Services ("Clalit"),[2] that significantly reduced the Company's exposure to groups in the health segment. We therefore anticipate a significant improvement in the rate of exposure to large groups and policyholders in the forecast years, which will likely have a positive impact on the risk profile in view of the elimination of the Company's insurance risk in the group long-term care policy for members of Clalit, together with the expectation of improvement in the ratio of high-risk reserves. The Company's financial profile is affected by low asset quality for the rating, partly due to substantial dividend distributions in 2022 and 2023, together with an increase in the Company's risk assets relative to the loss-absorption buffer in the past few years, indicating a relatively high risk appetite, similar to the trend in the industry as a whole. The Company's profitability is reasonable in comparison with the benchmark group,[3] and is partly affected by volatility due to its exposure to exogenous factors and limited due to relatively low underwriting profitability in non-life insurance. Nonetheless, in 2023 and in the first nine months of 2024 the Company's profitability improved, partly as a result of improved underwriting profitability, particularly in the health and motor property lines of business, and less significantly also in other non-life insurance lines of business in light of the implementation of the Company's strategic plan which includes optimization of the existing portfolio and the improvement of underwriting profitability, together with increased investment profit compared with recent years. Consequently, the Company's ratios of ROC and comprehensive income to total gross earned premiums for the first nine months of 2024 were 5.3% and 3.5%, respectively, calculated at an annual rate, compared with 2.5% and 1.4% respectively in 2023 and (2.4%) and (1.5%), respectively, in 2022. This profitability, particularly in view of the application of IFRS 17, which will improve underwriting profit in the life and health segments, supports the building up of the capital buffer which in turn will be affected by the volume of dividends, if distributed. The Company's capital adequacy is commensurate with the rating, as reflected in the capital surpluses in relation to the Solvency II Directive, where the Solvency Capital Ratios (SCR) at June 30, 2024, were 185% (taking the transitional period into account) and 167% (without taking the transitional period into account), higher than the average for the benchmark group and notwithstanding significant dividend distributions made in the past two years. The Company's liquidity profile is reasonable for the rating, supported by a long duration of

[2] On December 4, 2023, the Commissioner published an amendment to the Consolidated Circular - Section 6, Chapter 3 - Long-term Care Insurance and the Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO members) Provisions, 2023 - prescribing, inter alia, a reduction of the long-term care insurance benefits and cancellation of the requirement for the insurance companies to undertake a minimum risk of 20%. Subsequently, Harel and Clalit signed an Agreed Outline to extend the agreement period for the group long-term care policy for members of Clalit by 12 months (from January 1, 2024 through December 31, 2024). Among other things, the outline includes cancellation of the insurance risk threshold for Harel Insurance, reduction of the insurance benefits and raising the premiums. For additional information, see a report on Maya on this subject.[https://maya.tase.co.il/he/reports/1563420] [in Hebrew]

[3] The Phoenix Insurance Company Ltd., Migdal Insurance Company Ltd., Clal Insurance Company Ltd. and Menora Mivtachim Insurance Ltd.

liabilities, while the financial flexibility is commensurate with the rating and supported by a broad margin relative to the regulatory capital adequacy.

In Midroog's baseline scenario for 2024-2025 we expect the challenging business environment to persist, continuing to overshadow the insurance industry as a whole, and specifically the potential to generate revenues. Furthermore, the tight monetary environment characterized by high inflation and interest environments compared with the past few years, adversely affects economic activity and capital market yields, impacting sector-based growth as well as the Company's profits. At the same time, the Swords of Iron War ("the War") led to a series of repercussions and restrictions including a reduction of activity in the economy and decline in economic activity. In contrast, the rising interest environment has boosted the solvency ratio and reduced the insurance liabilities in long-tail segments.[4] According to Midroog's baseline scenario, we believe that the Company will maintain its business positioning, although the volume of gross earned premiums will fall slightly in 2024, mainly due to the change in the group long-term care agreement for members of Clalit, as noted above, and to the reform of managers insurance, alongside an expectation of stability in 2025. At the same time, we expect continuing improvement of the Company's underwriting profitability, so that the ratios of ROC and comprehensive income to total gross earned premiums will be in the range of 5.6%-9.0% and 3.5%-5.9% respectively, and will be commensurate with the rating.

Rating outlook

The stable rating outlook reflects our opinion that the Company's business and financial profile will remain within the range of Midroog's baseline scenario.

At the same time, the war that broke out in Israel on October 7, 2023, gave rise to a series of consequences in addition to uncertainty regarding the expected scope and duration of the war and its ramifications for the Israeli economy. For further information on this subject, please refer to the special report "Repercussions of the War on the credit repayment capacity of bond issuers rated by Midroog" (October 2024).[5]

Factors that may upgrade the rating:

- Improvement of the Company's capital surpluses that will find expression in the financial profile.
- Ongoing improvement of underwriting performance in the core lines of business and/or continuous improvement of overall profitability.

Factors that may downgrade the rating:

- Significant, persistent deterioration of the capital surpluses
- Ongoing deterioration of underwriting performance in the core sectors and/or significant and ongoing erosion of overall profitability.

[4] Compulsory motor and liabilities.
[5] The report appears on Midroog's website. [Hebrew]

Harel Insurance Company Ltd. - key data (NIS million)

NIS million	Sept. 30, 2024	Sept. 30, 2023	December 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Total assets	**131,847**	**183,127**	**127,639**	**124,305**	**128,644**	**113,964**
Total equity attributable to shareholders of the Company	**4,257**	**3,953**	**4,046**	**4,230**	**6,031**	**5,320**
Total comprehensive income (loss) attributable to shareholders of the Company	**400**	**155**	**245**	**(253)**	**1,223**	**661**
Total premiums earned, gross	**11,526**	**12,992**	**17,226**	**16,674**	**14,833**	**14,460**
Of which: life insurance and long-term savings	4,296	4,894	6,287	6,504	5,887	6,116
Of which: health insurance	3,645	4,815	6,468	5,928	5,364	4,953
Of which: non-life insurance	3,585	3,283	4,471	4,242	3,582	3,391
Total earned premiums, on retention	**9,975**	**11,286**	**14,960**	**14,521**	**13,053**	**12,875**
Total investment profit (loss) (including other comprehensive income)	**8,236**	**5,150**	**7,105**	**(5,770)**	**12,215**	**3,856**
Solvency ratio [1]	**185%***	**167%****	**166%**	**169%**	**175%**	**159%**
Solvency ratio without application of the transitional measures to the transitional period [2]	**167%***	**126%***	**138%**	**125%**	**116%**	**105%**
Midroog's adjusted ratios						
Intangible assets and - DAC long-term savings from equity	62%	64%	63%	57%	37%	36%
Return on capital (ROC) [3]	5.3%	2.1%	2.5%	(2.4%)	11.1%	6.3%
Comprehensive income (loss) to gross premium	3.5%	1.2%	1.4%	(1.5%)	8.2%	4.6%

[1] Including taking into account the measures for the transitional period and adjustment for equity risk and the effect of material capital transactions that took place in the period between the date of the calculation and date of publication of the Economic Solvency Ratio Report.

[2] Without taking into account the measures for the transitional period and adjustment for equity risk, and taking into account the effect of material capital transactions that took place in the period between the date of the calculation and the date of publication of Economic Solvency Ratio Report.

[3] Comprehensive income to the financial liabilities average (including financial guarantees and excluding derivatives) and equity (own funds) attributed to the shareholders in the period, calculated at an annual rate.

** As at June 30, 2024*

*** As at June 30, 2023*

Rating Rationale

A good business profile reflected in the Company's substantial size and diversification of the lines of business, which support the ability to generate revenues

The Company is Israel's largest insurer and has held a dominant position over time, as reflected in a 21% overall market segment in terms of gross premiums, with AUM of NIS 127 billion, as at September 30, 2024. The business profile is supported by relatively good diversification of lines of business, where the Company has maintained three significant pillars over time, as reflected in the mix of gross premiums and management fees in the 12 months ended September 30, 2024, of which the most significant is life insurance and long-term savings[6] (38%), followed closely by health insurance (32%) and non-life insurance (30%). At the same time, we examine revenue diversification based on the largest line of business[7] (in terms of premiums and management fees) as a share of the sum total of the lines of business, where this line of business accounted for approximately 38%. This is a slight improvement over previous years (41% in 2022 and 43% in 2021), reflecting a relatively diverse mix of revenues, in addition to a strong brand and broad and diverse customer base. These support the business profile and potential to generate income over the economic cycle, while addressing changes in the business environment, regulatory changes and macroeconomic effects.

The Company's principal marketing and distribution channels are insurance agents and agencies, while we believe that like other companies in the industry, the Company will continue to work to diversify the distribution channels in coming years, enhancing the digital channel vis-a vis the agents and customers. We believe that insurers who fail to adopt technological innovation and adapt their business model over time will experience significant deterioration of their business positioning.

Additionally, in recent years, the Company has begun to operate in the credit sector by providing "reverse mortgage loans", including through Harel 60+ Ltd. ("Harel 60+"), development property finance and by providing financial guarantees. Notably, from the annual financial statements for 2023, the Company presents credit sector activity in a new operating segment - the credit segment.

In Midroog's baseline scenario for 2024-2025 we expect the challenging business environment to persist and this will continue to overshadow the insurance industry as a whole, and specifically the potential to generate revenues. Furthermore, a tight monetary policy characterized by high inflation and interest environments compared with the past few years, adversely affects economic activity and capital market yields, impacting sector-based growth as well as the Company's profits. At the same time, the war gave rise to a series of repercussions and restrictions as a result of which activity in the economy shrank. In contrast, the rising interest-rate environment boosts the solvency ratio and reduces the insurance liabilities in long-tail segments. According to the baseline scenario, we believe that the Company will maintain its business positioning, although the volume of gross earned premiums will fall slightly in 2024, mainly due to the change in the group long-term care agreement for members of Clalit, as noted above, and to the reform of managers insurance, alongside an expectation of stability in 2025.

[6] Not including premiums for investment contracts.

[7] Midroog assesses four lines of business, including: motor insurance (compulsory and motor property (CASCO)), property insurance (other property and liabilities), life insurance and long-term savings as well as health insurance.

The life insurance and long-term savings segment is expected to be affected, on the one hand, by the growing competition for long-term savings products ("risk" products in particular) and by the regulations restricting deposits in managers insurance[8] that entered into force in September 2023, both of which are expected to continue to overshadow the potential for growth of the volume of premiums in the industry. On the other hand, these effects will moderate in light of the tight labor market which will contribute to the continuation of ongoing deposits in this segment.

In the health segment, we assume that the pace of growth of the premiums will be affected, on the one hand, by the provisions relating to the movement of insureds with full-coverage policies for surgery ("from the first shekel") to policies for surgery that are in addition to the Supplementary Health Services, and on the other, by continuing demand for private health services, with the Company focusing on the more profitable private sectors. Nonetheless, further competition in the industry and the structure of the standard policy will continue to exert pressure on prices in this segment. We expect that the Company will maintain significant market segments in this sector, notwithstanding the revised agreement for group long-term care insurance for members of Clalit, as noted above.

In the non-life segment, we believe that the volume of the Company's premiums will grow at rates of between 4% and 8% annually per annum, in the forecast period. This growth is mainly attributable to the high inflation environment and also to changes in the motor property line of business in recent years that have supported the increase in the price of premiums (and claims) in the forecast range. Additionally, the continuing growth of economic activity and the labor market are expected to positively impact growth rates in the property and liabilities segment, and as a consequence the volume of premiums in these sectors.

The risk profile is commensurate with the rating and is supported by relatively low product risk; an expected decrease in the exposure to groups in the forecast years supports the risk profile

The Company is characterized by relatively low product risk, which supports underwriting and reduces the insurance risk, given a higher degree of certainty regarding the volume of claims. We believe that product risk in non-life insurance and health insurance in the short term as good for the rating, where 65% of the premiums in the 12 months ended September 30, 2024, are for short-tail insurance contracts.[9] In our opinion, the insurance risk in these contracts is lower than in long-tail contracts, which entail greater uncertainty with respect to the volume and dates of the claims since the time period until the claims are clarified is longer. At December 31, 2023, the exposure to the largest reinsurer as a percentage of the total exposure is 42%, reflecting an increase compared with an average of 35% in the period 2019-2022. Furthermore, the ratio of the exposure to reinsurers from equity was 72%, reflecting an increase compared with an average of 55% in the period 2019-2022, which is partially attributable to deterioration of the equity in 2022-2023. These ratios are high relative to the benchmark group and reflect the Company's reliance on reinsurers in its business activity. Additionally, the Company hedges the insurance risks in some sectors of the non-life segment through highly rated reinsurers with

[8] The regulations stipulate that deposits in managers insurance, for new applicants, will be limited provided that their salary is more than twice the average wage in the economy.
[9] Motor property (CASCO), other property and short-term health.

relatively low exposure in the retention for catastrophe events, that was 2.8% of the eligible equity (own funds) at December 31, 2023. The share of high-risk reserves, as we define them, in life and long-term health insurance was 30% at December 31, 2023 (an average of 29% between 2020 and 2022), is commensurate with the rating and reflects relatively low exposure to yield guaranteed and/or longevity mechanisms, net of Hetz bonds, exposing the insurers to significant exogenous changes, including changes in the interest-rate curve and capital market volatility, in addition to the demographic risks. Notably, in light of the revised outline for the agreement between the Company and Clalit Health Services, as described above, the share of high-risk reserves is expected to continue to decline in the forecast years as the Company's insurance risk in long-term care insurance tapers off. The risk profile is also affected by a certain exposure to collectives (groups) and large policyholders that could aggravate the insurance risks, credit risks and sector-specific risks over the economic cycle and it also limits risk-adjusted pricing, due to the inability to assess individual risk for each insured. This exposure accounted for 27% of total gross earned premiums in 2023 and is also affected by significant exposure to groups in premiums in the health segment. In this context we note, in view of the revised outline for the agreement between the Company and Clalit as mentioned above, the Company's exposure to groups in the health segment has decreased significantly so that groups (collectives) accounted for 23% of total gross earned premiums in the long-term care sector in the first nine months of 2024, compared with 71% in 2023 and 69% in 2022. We therefore anticipate a significant improvement in the rate of exposure to large groups and policyholders in the forecast years, which we believe will be commensurate with the rating and will support the Company's risk profile. We believe that the Company's risk management policy and levels of control are commensurate with the rating and supported by regulatory requirements, while, in our opinion, full implementation of the Solvency II Directive and particularly Pillar II (ORSA) further improves risk management processes both within the Company and in the entire industry, and can support improvement of the risk profile over time and the measurement of economic capital, despite volatility of the economic capital under the Solvency II regime. Midroog also anticipates that in coming years the Company will continue to place considerable emphasis on the management of operational risks, which constitute a key, developing focus of risk, as well as on information security, business continuity and cyber security.[10] The Company's capital surplus under the Solvency II regime supports its risk profile, business flexibility and ability to build adequate risk management processes without regulatory pressures. Furthermore, the risk management function in Harel Insurance is also supported by computer and software services provided by Harel Hamishmar Computers Ltd., which is responsible for providing the various divisions within Harel Group with a range of automation services.

Quality of the assets is low for the rating

The Company's Nostro (proprietary) investments profile indicates a high-risk appetite relative to the sector, as reflected in the ratio of "high-risk assets"[11] to equity of 193% at September 30, 2024. This as

[10] See a related Midroog report on this subject: Reputation damage resulting from cyber attacks that could exact a heavy business price from companies.

[11] High-risk assets include all the financial investments assets other than cash, government bonds and corporate bonds with an investment rating, where the latter are weighted by a partial financing rate which reflects possible impairment risk over the credit cycle as a result of credit risks, market risks or liquidity risks.

a direct outcome of the Company's growing exposure to high-risk assets over time, similar to the trend in the sector as a whole, accompanied by deterioration of the Company's equity in the past few years due to significant dividend distributions in 2022 and 2023, and to a comprehensive loss in 2022 that was halted the following year. At September 30, 2024, the make-up of the investment mix in the Nostro (proprietary) portfolio is as follows: government bonds - 32%, collateral-backed loans - 21%, investment funds - 12% and tradable corporate bonds in Israel with a rating of Aa3.il and above - 6%. Any other investments are well diversified and less significant in the investment mix. At September 30, 2024, the share of intangible assets and DAC in life insurance, which typically have a "softer" value[12] than the equity, was 62%. This ratio is inadequate for the rating and is high compared with the benchmark group, in view of relatively low equity.

The Company's capital adequacy is commensurate with the rating, as reflected in the economic solvency ratio

The capital to balance sheet ratio (excluding assets for yield-dependent contracts) was 8.9% at September 30, 2024 and is commensurate with the rating. In our opinion, in the short to medium term the ratio will remain stable and/or improve, due the continuing strengthening of the Company's capital buffer accompanied by the further growth of AUM. The Company's capital adequacy is also reflected in the capital surpluses in relation to the Solvency II Directive, where the Solvency Capital Ratios (SCR) at June 30, 2024, were 185% (taking the transitional period into account) and 167% (without taking the transitional period into account), higher than the average for the benchmark group and notwithstanding significant dividend distributions made in 2022 and 2023, as mentioned above. On February 28, 2021, the Company's Board of Directors approved a dividend distribution policy in which the Company will distribute a dividend of at least 35% of its comprehensive income in the annual consolidated financial statements, and this as long as the Company is compliant with the minimum targets for Solvency II based solvency. In this context, we note that in January 2025, the Company's Board of Directors approved an update to the minimum economic solvency ratio target for the distribution of a dividend without considering the transitional measures for the transitional period, from 110% to 115%.[13] The minimum economic solvency ratio target considering the transitional measures for the transitional period remained unchanged at 135%. We believe that the Company will continue to build up the capital buffer and maintain a Solvency II ratio that is commensurate with the rating, notwithstanding our assumption that dividend distributions will continue in the forecast years, in line with the Company's aforementioned dividend distribution policy.

Profitability indicators demonstrate an improvement over recent years although they are sill reasonable for the rating, and are limited due to low underwriting profit in non-life insurance

The Company is characterized by reasonable profitability rates for the rating, which are partially limited by low underwriting profitability as reflected in a Combined Ratio in the Retention in non-life insurance of 107% on average between 2020 and 2023, compared with 99% in the same period on average among the benchmark group, where the Company's ratios of ROC and comprehensive income to total gross

[12] The economic value of these assets is generally uncertain and it might not be possible to dispose of them of at the values in which they were created at the time of purchase.

[13] See a report on the Maya website dated January 15, 2025. [Hebrew]

earned premiums were, on average, 4.4% and 3.2%, respectively, in the same years. The Combined Ratio in the Retention of Harel was partially affected by high volume in the liabilities sectors whereas in the motor property and other property sectors, which accounted for 32% and 30%, respectively, of total gross premiums in the 12 months ended September 30, 2024, the Combined Ratio was 97% and 59% at this date, compared with 104% and 59%, respectively, at 2023. Nonetheless, in 2023 and in the first nine months of 2024 the Company's profitability improved, partly as a result of improved underwriting profitability, mainly in the health and motor property lines of business, and less significantly also in other non-life lines of business in light of the implementation of the Company's strategic plan which includes optimization of the existing portfolio and the improvement of underwriting profitability, together with increased investment profit compared with recent years. Consequently, the Company's ratios of ROC and comprehensive income to total gross earned premiums for the first nine months of 2024 were 5.3% and 3.5%, respectively, calculated at an annual rate, compared with 2.5% and 1.4%, respectively, in 2023 and (2.4%) and (1.5%), respectively, in 2022.

Midroog's baseline scenario for 2024-2025 predicts further improvement of the Company's underwriting profitability compared with previous years, in view of the ongoing optimization processes that were and continue to be implemented by the Company. Nonetheless, we expect that the business environment which is affected by the repercussions of the war and by the challenging macroeconomic environment, will continue to threaten the insurance industry and specifically the potential to generate profits and the ability to build up the capital buffer from ongoing profits. Additionally, the insurance industry will continue to feel the impact of volatile yields in the capital markets alongside exposure to excessive regulation, which encourages competition and generates additional costs, as reflected, in part in the health insurance reform as well as the revised mortality tables in line with the amendment to the provisions of the Consolidated Circular on the Measurement of Liability - Revision of the Demographic Assumptions in Life Insurance and Pension Funds, that was published in July 2024.[14]

In the life insurance and long-term savings sector, we expect profit to continue to fluctuate in view of considerable exposure to exogenous factors. Likewise, the ongoing war, the growing competition for long-term savings products ("risk" products in particular) and the regulations restricting deposits in managers insurance[15] that entered into force on September 1, 2023, are expected to overshadow the potential for growth of the volume of premiums in the industry and profitability. Notably, the Company has not recorded variable management fees since 2021. Nonetheless, at November 2024, the Company's estimate for management fees that will not be collected due to the real aggregate negative yield until a cumulative positive yield is attained, is only NIS 42 million. Accordingly, we believe that there is the potential for collecting variable management fees in 2025, subject to the yields in the capital market remaining positive.

The health insurance segment will continue to be affected by the business focus of most of the companies in the industry in the profitable segments and by regulatory changes. These include the entering into force of the provisions concerning the movement of insureds with full-coverage policies

[14] Amendment to the provisions of the Consolidated Circular on the Measurement of Liability - Revised Demographic Assumptions in Life Insurance and Pension Funds

[15] The regulations stipulate that deposits in managers insurance, for new applicants, will be limited provided that their salary is more than twice the average wage in the economy.

for surgery ("from the first shekel") to policies for surgery that are in addition to the Supplementary Health Services, as well as a standard policy structure, that are expected to intensify price competition and exert pressure on profitability in this sector. In our opinion, these influences are moderated by the fact that the Company holds a dominant market share in this segment.

In the non-life segment, we expect competition to remain strong from both the traditional companies and the direct insurance companies, despite significant tariff increases. We believe that profitability could improve as a result of greater operating efficiency with better control of the operating expenses structure, in part through the growing use of technology combined with the streamlining of claims and use of arrangement repair garages. Consequently, the Company's profitability rates are expected to demonstrate continuing improvement relative to recent years, so that the ratios of ROC and comprehensive income to total gross earned premiums are expected to range between 5.6%-9.0% and 3.5%-5.9%, respectively, and to be commensurate with the rating.

The liquidity profile is reasonable for the rating and supported by a long duration of liabilities; financial flexibility is commensurate with the rating and supported by a broad margin relative to the regulatory capital adequacy

The Company's liquidity profile is reasonable for the rating, as reflected in a current ratio of x 1.6 between the weighted liquid assets inventory and the insurance and financial liabilities due for repayment in the short term. In view of the Company's diverse mix of business, some of the liabilities are expected to mature in the long term (life insurance and long-term savings) and others in the short term (non-life insurance). At the same time, we do not expect any significant change in the leverage ratio in the forecast years and we therefore believe that the Company will continue to remain close to the limit of regulatory recognition in Tier-2 capital instruments. The Company's financial flexibility is commensurate with the rating, supported by Solvency II ratios that are significantly higher than the regulatory requirement together with an absence of significant pressure to distribute dividends in the short term from the parent company Harel Insurance Investments and Financial Services Ltd ("Harel Investments" or the "Parent Company"), which has a rating of Aa2.il, outlook stable. In our opinion, Harel Investments is somewhat dependent on the dividend distributions from the Company to service its debts, while the insurance company continues to serve as the principal anchor for the parent company's consolidated activity and it has business ties with the other group companies, although the parent company also relies on additional sources (Harel Pension and Provident Ltd.). Notably, substantial liquid balances are available to the parent company, providing it with financial flexibility for servicing its debts. We believe that the Company has good access to sources of finance, in order to improve the solvency ratio (raising of additional Tier-1 capital), as well as other tools at its disposal (agreements with reinsurers, change in the investment mix, etc.) for addressing deterioration of the solvency ratio, should this be necessary.

Additional rationale

Relatively long duration of liabilities which supports the liquidity profile

The Company has a relatively long duration of liabilities which provides strong support for both its liquidity profile and rating. In our opinion, insurers characterized by a long duration of liabilities and that

have no PUT options for policyholders to call in money, are less exposed to liquidity risk and are better able to respond over time, supporting their resilience and rating. Moreover, the volatility that may result from marking to market of assets (MTM) does not always reflect the economic value of insurers with a long duration of liabilities, given their ability to hold the relevant assets to maturity. We therefore believe that the economic capital of those companies may be less exposed to short-term market volatility.

ESG considerations

Environmental considerations: Israel's insurance companies, and particularly insurers operating in the non-life sector, are exposed to risks that could materialize in view of climate change. Climate change has the potential to affect the frequency and severity of natural perils (earthquakes, fires, floods, etc.), that could cause significant losses and affect the actuarial models. In our opinion, the impact of climate events, if and when they materialize, is difficult to estimate thus increasing the uncertainty attributable to this risk. While insurers are only able to reprice policies periodically, the increasing global frequency of catastrophe losses relating to climate change and the accumulation of these risks, make underwriting and risk management ever more complex. In contrast, such exposures are moderated mainly by the use of reinsurance for spreading risks. However, the insurance companies have indirect exposure by means of the financial strength of the reinsurers that insure the local insurance companies and any harm to them could create an additional risk for the insurance companies in the industry. We believe that these risks are adequately expressed in the rating matrix, and specifically in the "product risk - non-life and short-term health insurance" parameter as well as in the solvency ratio which reflects various scenarios with respect to the Company's capital requirement.

Social considerations: Israel's insurance companies, and particularly the insurers operating in the life assurance and long-term savings and health sectors, are exposed to significant demographic and social changes, including: longevity and an increase in the morbidity rate. Accordingly, increased longevity due to a decrease in mortality rates after the age of retirement affects the period of future annuity payments (mainly with the development of accrual in policies with a guaranteed annuity option), which are expected to lead to an increase in the reserves required to cover these payments. Furthermore, an increase in the mortality rates for insureds with life assurance that includes compensation in the event of death ("risk"), including in the event of catastrophe, might cause an immediate loss and affect the value of the portfolio. Rising morbidity, including long-term care, work disability and insurance for medications, also has a material impact on the scope of the insurance companies' profits. We believe that these risks are adequately expressed in the rating matrix, and specifically in the "product risk - long-term life assurance and long-term savings, long-term care and long-term health insurance" parameter as well as in the solvency ratio which reflects various scenarios with respect to the Company's capital requirement.

Corporate governance considerations: In our opinion, corporate governance risks carry a material effect for the insurance industry. These risks form a key credit consideration, where weak corporate governance could lead to a worsening of the insurer's credit repayment capacity, whereas strong corporate governance might positively impact its credit repayment capacity. Corporate governance risks are mitigated by the regulatory framework in which the insurers operate, a framework that outlines the

internal control functions as well as tight controls imposed by the regulator. Midroog examined the effect of corporate governance on the Company and does not assume any significant exposure in this respect.

Structural considerations

Characteristics of subordinated instruments

Based on Midroog's methodology, the anchor for rating the subordinated debts (hybrid Tier-2, and Tier-2 capital instruments) is the Insurance Financial Strength (IFS) rating, from which we adjust the rating to the credit risk of the subordinated debt instrument according to its contractual characteristics. We lower two notches from the insurer's IFS for rating hybrid Tier-2 / Tier-2 capital. Lowering the notches factors in the legal-contractual subordination of these debts in relation to IFS, the ranking of seniority among the actual subordinate debts and the effect of the loss-absorption mechanisms they incorporate (in the contractual trigger for "delaying circumstances" or at the discretion of the Commissioner of Insurance).

For Tier-2 capital instruments, we estimate that the uncertainty regarding the probability of reaching the "delaying circumstances" is substantially lower than the Company's current and expected solvency ratio and it was therefore not factored into the lowering of an additional notch. The Solvency Circular defines "delaying circumstances" as a solvency ratio which is 80% of the solvency ratio required in the transitional period, after adjustment for equity risk. At June 30, 2024, the Company's solvency ratio in the transitional period was 185%, as mentioned above.

Rating matrix

Category	Parameter	Sub-parameter	As at September 30, 2024		Midroog outlook [1]	
			Measurement [1]	Score	Measurement	Score
Business profile	Business positioning		21%	Aaa.il	21%	Aaa.il
	Distribution channels		-	Aa.il	-	Aa.il
	Revenue diversification		38%	Aa.il	~38%	Aa.il
Risk profile	Product risk - short-term non-life and health insurance		65%	Aaa.il	~65%	Aaa.il
	Product risk - life assurance and long-term savings, long-term care and health		30% [2]	A.il	25%-30%	Aa.il
	Percentage exposure to groups and large enterprises (group from total premiums)		27% [2]	A.il	~19%	Aa.il
	Risk management policy		-	Aa.il	-	Aa.il
Financial profile	Asset quality	Assets at risk / equity	193%	A.il	~193%	A.il
		DAC life + intangible / equity	62%	A.il	~62%	A.il
	Capital adequacy	% capital surplus over regulatory requirements [1]	185%	Aa.il	~185%	Aa.il
		Equity / total assets in balance sheet (excluding yield dependent)	8.9%	Aa.il	~9%	Aa.il
	Profitability	Return on capital (ROC)	5.3%	A.il	5.6%-9.0%	A.il*
		Comprehensive income to gross premium	3.5%	A.il	3.5%-5.9%	A.il*

	Liquidity	Liquidity ratio (excluding yield dependent)	x 1.6	Aa.il	x1.6	Aa.il
	Financial flexibility		-	Aa.il	-	Aa.il
Estimated derived financial strength						**Aa2.il**
Estimated actual financial strength						**Aa1.il**

[1] The indicators presented in the table are after Midroog's adjustments and are not necessarily the same as those presented by the Company. Midroog's outlook includes its assessments of the issuer based on Midroog's baseline scenario, rather than the issuer's assessments.

[2] Correct to December 31, 2023.

* The forecast range and results for previous years were taken into account in calculating the score.

About the Company

Harel Insurance is a private company fully controlled by Harel Investments. Harel Investments is a public company whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The principal shareholders in Harel Investments are Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Controlling Shareholders"), holding approximately 46.5% of the voting rights and the issued share capital of Harel Investments. The Controlling Shareholders hold the Company principally through G.Y.N. Financial Consulting & Management 2017 Limited Partnership ("G.Y.N. Partnership") which they fully own and control and which they hold, as limited partners, through private companies which are fully controlled by each of the Controlling Shareholders, and they also hold the general partner in G.Y.N. Partnership. The Company's CEO is Mr. Nir Cohen and Chairman of the Board is Mr. Guy Rotkopf.

Harel Insurance operates primarily in the insurance industry, including: life assurance and long-term savings, health insurance and non-life insurance. The insurance activity is performed by the Company itself. In the long-term savings segment, activity is performed by the Company and also through the following subsidiaries that are provident fund and pension fund management companies: Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd., under full control, ("Tzva Hakeva") and LeAtid Pension Funds Management Company Ltd. (in which the Company holds a 79% stake), which manages an old pension fund ("LeAtid"). Additionally, credit activity takes place through: (1) the subsidiary Harel 60+, which provides ordinary mortgage loans, reverse mortgages in the form of a loan provided to customers aged 60 or more, against a first lien on their home; (2) within the context of development property finance activity, including the Company's sale guarantee activity; (3) within the framework of providing financial guarantees and operating services for mortgage portfolios. From the financial statements for 2023, the Company presents its activity in the credit sector as a new operating segment – the credit segment.

Rating history

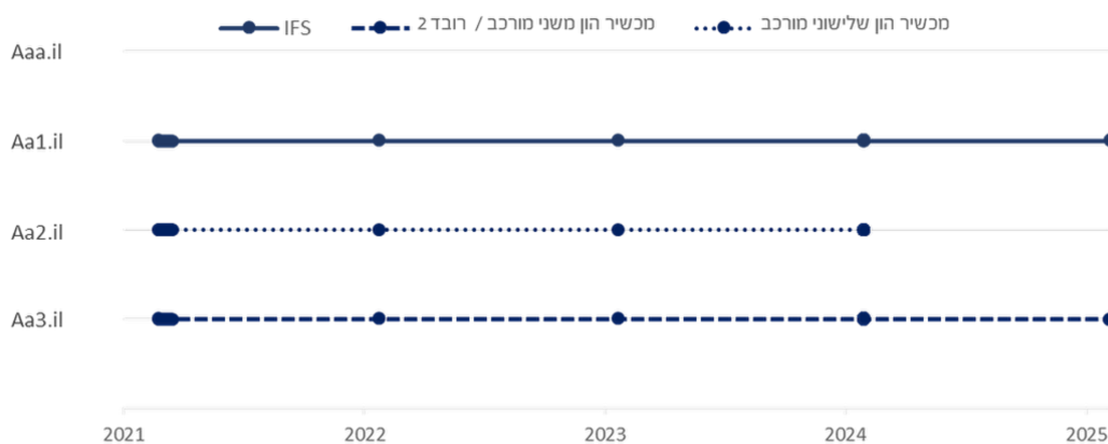

Diagram text [key]:

Solid line: IFS

Dashed line: Hybrid Tier-2 capital instrument / Tier-2 capital

Small dotted line: Hybrid Tier-3 capital instrument

Related reports

Harel Insurance Company Ltd. – related reports

Harel Insurance Investments and Financial Services Ltd. – related reports

Rating for Life insurance, Health and Non-life Companies - Methodology Report, May 2022

Special Report: “Repercussions of the Swords of Iron War on the Credit Repayment Capacity of Issuers Rated by Midroog", October 2024

Midroog

Guidelines for assessing environmental, social and corporate governance risks as part of a credit rating – Methodology Report, February 2022

Table of affiliations and holdings

Midroog Rating Scales and Definitions

The reports are published (in Hebrew) on Midroog's website www.midroog.co.il

General Information

Date of rating report:	February 16, 2025
Date of previous rating update:	February 8, 2024
Publication date of initial rating:	February 24, 2021
Name of rating initiator:	Harel Insurance Company Ltd.
Rating paid for by:	Harel Insurance Company Ltd.

Information from the Issuer

Midroog's rating relies, among other things, on information received from authorized parties at the issuer.

Local Long-term Rating Scale

Aaa.il	**Issuers or issues rated Aaa.il demonstrate, in Midroog's judgment, have the highest creditworthiness relative to other local issuers.**
Aa.il	**Issuers or issues rated Aa.il demonstrate, in Midroog's judgment, very high creditworthiness relative to other local issuers.**
A.il	**Issuers or issues rated A.il demonstrate, in Midroog's judgment, high creditworthiness relative to other local issuers.**
Baa.il	**Issuers or issues rated Baa.il demonstrate, in Midroog's judgment, moderate creditworthiness relative to other local issuers and may possess certain speculative characteristics.**
Ba.il	**Issuers or issues rated Ba.il demonstrate, in Midroog's judgment, weak creditworthiness relative to other local issuers and may possess speculative characteristics.**
B.il	**Issuers or issues rated B.il demonstrate, in Midroog's judgment, very weak creditworthiness relative to other local issuers and possess speculative characteristics.**
Caa.il	**Issuers or issues rated Caa.il demonstrate, in Midroog's judgment, excessively weak creditworthiness relative to other local issuers and possess very significant speculative characteristics.**
Ca.il	**Issuers or issues rated Ca.il demonstrate, in Midroog's judgment, extremely weak creditworthiness and are very near insolvency, with some prospect of recovery of principal or interest.**
C.il	**Issuers or issues rated C.il demonstrate, in Midroog's judgment, the weakest creditworthiness and are usually insolvent, with little prospect of recovery of principal or interest.**

Note: Midroog appends numeric modifiers 1, 2, and 3 for each rating category from Aa.il to Caa.il. The modifier "1" indicates that the debenture ranks in the higher end of its rating category, which is denoted by letters. The modifier "2" indicates a mid-range ranking category and the modifier "3" indicates a ranking in the lower end of that category, which is denoted by letters.